



Special Notice

STATE BOARD
OF EQUALIZATION

Reporting Instructions Related to the January 1, 2001, Sales and Use Tax Rate Decrease

February 2001

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In November 2000, businesses were notified that on or after January 1, 2001, the minimum combined state, county, and local sales and use tax rate would decrease from 7.25% to 7%. Since then, we have received inquiries about how to report transactions that were affected by the decrease. These include collecting tax reimbursement at a higher rate after the tax reduction took effect; claiming credit for merchandise sold at a higher rate and returned on or after January 1, 2001; and claiming a bad debt deduction on prior sales made at a higher rate that became uncollectable after the tax rate reduction. The following information is designed to address some of the more commonly asked questions and provide guidance on filling out the *Schedule T—Tax Adjustment Worksheet* (form BOE-531-T—see sample page 4). Some filers receive Schedule TE instead of Schedule T. Some of the adjustments discussed in this notice may not apply to the Schedule TE. For more information, call our Information Center (see “For Assistance,” page 3).

Adjusting Your Tax Return

We developed Schedule T so that you can adjust your sales and use tax return to properly report the applicable tax due on your sales and purchases. Although most filers will receive Schedule T with their tax return, you only need to complete the schedule if you are reporting

- Sales or purchase transactions that occurred before the January 1, 2001, tax rate change. For example, fiscal year filers whose reporting period is from July 1, 2000, to June 30, 2001.
- Sales that occurred after the January 1, 2001, tax rate change, but you collected a higher tax rate and did not refund the excess tax reimbursement to your customer.
- Tax recovery deductions for transactions that occurred before the January 1, 2001, tax rate change. Tax recovery deductions include amounts that are reported on lines 10(a) through 10(d): bad debt losses, tax-paid purchases resold, returned taxable merchandise, cash discounts.
- Sales or purchases under Section 6377 Manufacturer’s Exemption and Section 6378 Teleproduction Equipment that occurred before the January 1, 2001, tax rate change.

- Rental receipts from leases of Mobile Transportation Equipment (MTE) if (1) you have elected to report based on fair rental value, and (2) the MTE was leased prior to January 1, 2001.

If you are not reporting any of the above items, you do not need to complete Schedule T.

Excess Tax Collection

We are aware that some retailers may not have reprogrammed their cash registers in time for the tax rate change. If you charged sales tax reimbursement or collected use tax at the higher rate on or after January 1, 2001, you must return the amount of excess tax collected to your customers or pay it to the State.

To pay the amount to the State, you should include these sales in Column A of Schedule T when you complete your sales and use tax return. Also, please write a note in the margin of Schedule T, identifying the amount on Line 1, Column A that represents sales where the higher tax rate was charged in error.

Although Schedule T states that sales made on or after January 1, 2001, are to be reported in Column B, you should report sales of this nature in Column A to properly report the excess tax collected.



If you refund the excess tax collected to your customer, you should report the sale on Line 1, Column B of Schedule T.

Returned Merchandise Deductions

Due to the tax rate reduction, some retailers may need to claim credit for merchandise that was sold during 2000 at a higher tax rate, and returned by their customers on or after January 1, 2001, when the tax rate was reduced. If you are claiming a returned merchandise deduction, remember that you can claim a deduction only if

- You returned or credited to your customer the full sales price, including sales tax charges, and
- The customer, in order to obtain the refund or credit, was not required to purchase other property at a price greater than the amount charged for the property returned.

My customer is returning merchandise that was purchased in 2000. What tax rate should I refund?

You should refund the tax rate that was in effect at the time you made the original sale. When you complete your sales and use tax return you should report the amount of the original sale, without the tax, in Column A of Schedule T so that you receive a merchandise return credit at the higher tax rate in effect when you made the original sale.

What if I refunded tax based on the lower, 2001 tax rate?

Merchandise returns where you did not refund the entire sales price of the item including all the sales tax originally charged, *do not* qualify for the deduction.

For example, if you reprogrammed your cash register for the lower tax rate after January 1, 2001, and you take back returned merchandise but only refund the sales tax at the lower rate, you *cannot* claim a returned merchandise deduction for that transaction on your sales and use tax return.

Reporting Bad Debts

Retailers may claim a bad debt deduction for sales made during a prior period provided the sales tax or use tax due on the sale was reported and paid to the state. A bad debt deduction should be taken on the return filed for the period in which the amount was found worthless and written off. If you are claiming a bad debt deduction during 2001 for a prior sale at a higher tax rate, you will need to use Schedule T to ensure that you receive credit for the amount of tax previously paid and allowable under Regulation 1642.

I have a bad debt to report. The original sale was made in 2000, but I'm writing it off my books in 2001. Which column do I use on Schedule T?

You should enter the amount of the bad debt in Column A of Schedule T so that your return is credited for the amount of tax originally reported and paid on the portion of the original sale that is being written off.

Remember to enter only the amount of the sale before tax. For example, if the merchandise had been sold for \$15 plus sales tax, you would claim only \$15 as a deduction.

I claimed a bad debt deduction in 2000 when the tax rate was higher. In 2001, the customer paid the account in full. How do I report the bad debt recovery if the original sale was made at the higher tax rate?

If you claim a bad debt deduction and later recover payment, you should report the recovered amount on Schedule T. The amount of the bad debt recovery, without tax, should be reported on Line 1, Column A when you complete your sales and use tax return. You should also make a note on Schedule T that Line 1, Column A includes a recovered bad debt (note the amount) for which a higher tax rate was originally charged.



Fixed-Price Contracts and Leases

Fixed-price contracts and taxable lease agreements (except leases of mobile transportation equipment) entered into prior to January 1, 2001, are subject to the new lower rate for sales actually occurring on or after January 1, 2001— even if the contract specifies a higher rate.

Note: The definition of “fixed-price contract” can be found in our Publication 44, *Tax Tips for District Taxes*.

Mobile Transportation Equipment (MTE)

Lessors of MTE are consumers of the equipment. Leases of MTE are not continuing sales and purchases. Accordingly, either the sale of the equipment to the lessor or its use in this state is generally subject to tax.

Lessors electing to pay their use tax liability measured by the fair rental value must pay tax at the rate in effect at the time the equipment is first leased. The tax rate will remain the same for all periods during which the equipment is leased, including the periods during the first lease of the equipment and all periods during any subsequent leases of the equipment (Regulation 1661 (b)(2)(B)).

I am a lessor of mobile transportation equipment (MTE). What tax rate do I charge my customer?

If you elected to report your tax liability for your leases of MTE based on fair rental value, then the rate in effect at the time the equipment was first leased is the correct rate for all periods you lease it. You will need to complete Schedule T if you are reporting MTE rental receipts subject to a tax rate before the January 1, 2001, tax decrease. Even though your receipts are received after January 1, 2001, the higher tax rate applies. You report these receipts on Line 1, Column A of Schedule T.

Manufacturer's and Teleproduction Exemptions

If you sell qualified property to a holder of a Manufacturer's Exemption Certificate or a

Teleproduction Exemption Certificate after January 1, 2001, you should only exempt 4.75 percent of the purchase from tax. The exemptions provided under Sales and Use Tax Law sections 6377 and 6378 apply only to the state portion of the combined state, county, local, and district tax rate. On January 1, 2001, the state portion of the tax rate decreased by one-quarter percent, decreasing the exemptions from 5 percent to 4.75 percent.

Will the Board issue replacement certificates?

No, replacement certificates will not be issued. Certificate holders have been notified that on or after January 1, 2001, the amount of exemption has been reduced from 5 percent to 4.75 percent. However, certificates issued to new holders on or after January 1, 2001, will state that the exemption is for 4.75 percent.

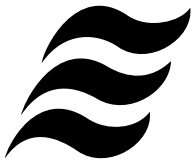
Date of Sale

Tax is due for the period in which a sale takes place. A sale is deemed to occur when your customer takes title to or possession of an item. Thus, you should charge your customer the tax rate in effect when the merchandise is delivered to the customer unless your contract specifically identifies and passes title to your customer at a different time.

For example, if you sold merchandise to your customer in 2000, but the customer did not take possession of the items until 2001, you would charge your customer the lower 2001 tax rate. However, if your sales contract specifically identified and passed title of the items to your customer before January 1, 2001, the higher 2000 tax rate would apply.

For Assistance

If you have questions about the tax rate change or need additional help computing any adjusted amounts on your return, please call our Information Center at 1-800-400-7115. You may also obtain information from our website at www.boe.ca.gov.

**SCHEDULE T - TAX ADJUSTMENT WORKSHEET**

DUE ON OR BEFORE		
[FOID]	YOUR ACCOUNT NO.	

SCHEDULE T MUST BE ATTACHED TO YOUR RETURN

PLEASE READ INSTRUCTIONS BEFORE PREPARING THIS SCHEDULE	COLUMN A TRANSACTIONS PRIOR TO 1/1/01	COLUMN B TRANSACTIONS ON/OR AFTER 1/1/01	COLUMN C TOTAL
1. TOTAL (GROSS) SALES	.00	.00	.00
2. PURCHASES SUBJECT TO USE TAX	.00	.00	.00
3. TOTAL (add lines 1 and 2)	.00	.00	.00
4. SALES TO OTHER RETAILERS FOR THE PURPOSE OF RESALE	.00	.00	.00
5. NONTAXABLE SALES OF FOOD PRODUCTS	.00	.00	.00
6. NONTAXABLE LABOR	.00	.00	.00
7. SALES TO THE UNITED STATES GOVERNMENT	.00	.00	.00
8. SALES IN INTERSTATE OR FOREIGN COMMERCE	.00	.00	.00
9. SALES TAX (IF ANY) INCLUDED IN LINE 1	.00	.00	.00
10. a) BAD DEBT LOSSES ON TAXABLE SALES	.00	.00	.00
b) COST OF TAX-PAID PURCHASE RESOLD	.00	.00	.00
c) RETURNED TAXABLE MERCHANDISE	.00	.00	.00
d) CASH DISCOUNTS ON TAXABLE SALES	.00	.00	.00
e) Sections 6377 & 6378 - STATE TAX EXEMPTIONS 60(a) Amount subject to 5% Manufacturer's Exemption \$ <input type="text"/> + 60(b) Amount subject to 5% Teleproduction Exemption \$ <input type="text"/> = 60(c) Enter total of boxes 60(a) & 60(b) \$ <input type="text"/> (Multiply box 60(c) by .8333) Enter result in Column A 60(a) Amount subject to 4.75% Manufacturer's Exemption \$ <input type="text"/> + 60(b) Amount subject to 4.75% Teleproduction Exemption \$ <input type="text"/> = 60(c) Enter total of boxes 60(a) & 60(b) \$ <input type="text"/> (Multiply box 60(c) by .8261) Enter result in Column B Add Columns A and B; enter total in Column C and in line 10(e), box 61, on the front of the return.	.00	.00	.00
		Enter this total in Box 61 on the return >	.00
f) OTHER	.00	.00	.00
11. TOTAL NONTAXABLE TRANSACTIONS REPORTED ON LINES 4 THRU 10(f)	.00	.00	.00
12. TRANSACTIONS SUBJECT TO STATE TAX (subtract line 11 from line 3) for each column: Enter amount from Column A on line 12(a) of the return; Enter the amount from Column C on line 12 of the return	.00	.00	.00
TAX RATE (multiply line 12 by this state sales and use tax rate)	x 0.06	x 0.0575	
13. STATE TAX a) Adjusted for state sales and use tax rate change PRIOR to 1/1/01	.00		
b) Adjusted for state sales and use tax rate change ON/OR AFTER 1/1/01		.00	
c) Add lines 13a and 13b; enter total in Column C and on line 13 of the return			.00